

KOPERNIK GLOBAL INVESTORS, LLC

**Edited Transcript of the 3<sup>rd</sup> Quarter 2021  
Conference Call with David Iben**

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Operator: Good day, ladies and gentlemen, and welcome to the Kopernik Global Investors Third Quarter 2021 Conference Call. As a reminder, today's call is being recorded. At the conclusion of today's presentation, there will be a question-and-answer session. Instructions will be given at that time. At this time, I would like to turn the call over to Mr. Kassim Gaffar. Please go ahead, Mr. Gaffar.

Kassim Gaffar: Thank you, operator. And welcome to the Third Quarter 2021 Conference Call. My name is Kassim Gaffar. And I have with me David Iben, our CIO and Portfolio Manager for the Kopernik Global All Cap Strategy and Co-PM for the International Strategy. And also Alissa Corcoran, our Director of Research and Analyst.

Before I pass the call to David and Alissa, I'll be providing a quick firm update. Kopernik entered the third quarter with overall firm assets of roughly \$7 billion. This was a nice increase at the beginning of the year with our AUM was right around \$5.2 billion. This increase was due to strong inflows and market appreciation from our portfolios that have historically, and even currently, tended to perform well in the market environment. Moving along on the personnel side, no changes to report. We ended the quarter being 43 employees strong and have continued to be stable with minimal turnover since inception of the firm.

That brings us to an end to the business update. Please note, Dave and Alissa will be referring to the presentation which can be found on our [website](http://kopernikglobal.com), kopernikglobal.com, under the News & Views section.

Also, we do have some new content, including Dave's [more recent letter](#). We encourage everyone to have a look after this call or at your convenience. And with that, I'll pass it over to Dave and Alissa. Dave, please go ahead.

David Iben: All right. Thanks, Kassim. And thanks to everybody for joining us. Another exciting quarter. The market seems to like to go up, which works pretty well.

Anyhow, lots talk about – this is a continuation of, I guess I can call, our desert series (page 6). Over the summer, we wrote about [29 Palms](#) and [Sedona](#). And now this, I guess after spending a few days in Marrakech, desert's on the mind.

But anyway, we've been using the desert to talk about such things as scarcity and the value of scarcity. To talk about, in this new era we're living in, how to distinguish reality from mirages. Talking about how inflation migrates to the system. And we talk migration as opposed to transitory, is what we're told it's doing, but it does seem to migrate, and the result and opportunities from that as investors.

Today, as this picture shows, we're using the letter to talk about really hardiness, I guess, fragility. And as Nassim Taleb talks about in his book, when you try to protect people, and companies, and society in general,





from any of the afflictions that the natural laws of the universe put on them, you maybe have good intentions, but it usually leads to making people, and things, and systems more fragile.

So that seems to be what happened. And so, as the world's central banks and governments are all creating a fragile world, then more than ever, we believe what we've always believed. And as David Swenson (Page 7) puts it better than we do, this is the time to look different than the crowd. And as he puts it, superior results require unorthodox and rational asset class allocation; unconventional and timely commitments to out-of-favor asset classes. Certainly, it will show that in-favor asset classes are not a place people should be looking in or risking anyhow.

Howard Marks puts it too, you have to think differently. This is definitely a time to think differently than the crowd. In a fragile environment, people should be looking to build a portfolio of anti-fragile companies and securities.

So that's what we hope to talk about (Page 8). We will start with the concept that, should we assume that things are fragile? We would suggest to anybody paying attention to the buildup of debt in the U.S. and everywhere else in the world, rather scary. 350% of GDP – that's an impressive number, debt, as they say, at best case is borrowing from the future.

Of course, in conjunction with this the central banks (Page 9) of the world have been printing a whole lot of money. And we're talking almost a 10-fold increase in the money supply in the last couple of decades, 10-fold. So, in theory, the dollar should have lost 90% of its purchasing power. And certainly, there are no shortages of things that now cost 10 times as many dollars as they did 20 years ago.

To put the stock market in perspective (Page 10), the economy, of course, is a rough estimate of what sales are. These sales must then cover all the expenses, all the goods, all the services, all the materials, all the labor, the interest cost, the taxes to the government. What's leftover is the profits that support valuations. So, it's not that often you see stock markets become bigger than the economy in which they are in. It usually ends bad. So, the U.S. market, it is bigger than the U.S. economy. Shockingly, it's bigger than the U.S. economy, plus China and Japan, Germany and the UK's economy. So, really breathtaking.

Within the stock market, when you get these manic periods like now, when there's too much money chasing stocks, not only do the stocks get expensive, but the popular ones, the really expensive ones become outrageous. (Page 11) You can see from this diagram that 1999 was a wonderful time to sell the popular stocks. And look for shelter, buy something better. Certainly people that owned expensive stocks in '99 wished they hadn't a few years later. It was a painful 80%-something drop in the NASDAQ and a 90%-something drop for the many of the growth funds. This chart suggests that this might make 1999 look not so bad in perspective. Definitely people are paying for stocks they like.

So if that's the case, if we're in an environment where stocks are really expensive, especially popular stocks, and high-grade real estate, and art, you name it, anything with a good story is expensive, and likely fragile, we need to start talking about, how do we have an anti-fragile portfolio? And to discuss that more, let's hand it over to our Director of Research, Alissa Corcoran.

Alissa Corcoran: Thanks, Dave. Yes. As Dave showed, the high valuations in stocks and bonds, the high levels of debt, 40 years of interest rates falling have made the market's bones very brittle. So, how do we construct a portfolio that can protect us from this? (Page 12) And so, we suggest an anti-fragile portfolio. And so, what is – what is that? Well, a fragile portfolio is one that has a small amount of upside but large amount of downside. And it's one that is hurt by disorder. It will not do well if the system changes.





And anti-fragile is the opposite. And it can handle change. It is one that has large amounts of upside with very small amounts of downside. And it is one that benefits from increased volatility, benefits from disorder, takes advantage of the inefficiencies caused by easy-money policies, low interest rates that have incentivized a lot of mal-investments. They're benefiting from misperceptions that volatility is risk. And the portfolio that would benefit from investors' tendencies to project the history well into the future. Things that worked in the past, people are believing are going to work in the future, as Dave's charts have shown.

So, do we build an anti-fragile portfolio? Well, we start with what you shouldn't own, which is the popular stocks which are extremely expensive these days. Also avoiding these low-paying financials. Many of the bonds are yielding negative returns right now, the prices are so high.

We do suggest that investors own option value and tangible value. And to take a tangent on optionality. And I'll explain it using a simple example, the weather (page 13). If someone were to come into our office in Tampa and ask whether or not we wanted to make a bet that it will rain 6 inches in a month, is it a good bet or a bad bet? This is the historical monthly precipitation for Tampa.

So, we've just survived – its October, we've just survived the rainy summer. And we're sitting here in October. This would be a bad bet if we said it will rain 6 inches tomorrow or next week or one month from now, even six months from now. However, given enough time, if we can last a year, this is actually something that is a very promising bet. And it looks even more promising if we had, say, five years. (Page 14) So, the takeaway, is that, with time, an option suddenly becomes very valuable because an option pays when something happens. So, the more time that you have, the more valuable that option becomes.

So, with the weather, as an example, you had something that was highly unlikely to happen, suddenly becomes highly probable, given time. And this chart (Page 15) is just a visual representation of that. This is the value of an option over time. And as you can see with time, that the option value is worth – is exponentially higher. This is why it is so important for investors to have a long-term view and be patient. And also, because in the long run, things are more likely to reach their intrinsic value. We have no insight as to how things are going to move in the short term. But over the long term, fundamentals will play out. (Page 15) Also, with an option, your downside is limited while the upside potential is very large. So, by definition, an option is an anti-fragile investment. This seems obvious, but if we want to seek convexity, we also want to avoid concavity, which are investments that have small amounts of upside with potentially large amounts of downside.

Today, however, the market seems to love concavity (Page 16). It's a good example of low interest fund. Today, you can buy a 30-year bond and get 2% return, which is returning in real terms a negative return. And if interest rates rose to 5% or 10%, you're losing 50% to 75% of your money. So, many investors are lulled into projection bias. They think, "Well, interest rates have been dropping for 40 years. It's hard for them to see things changing." So concave investments, fragile investments do not do well with change as this would show.

You do want to seek convexity in a fragile system (Page 17). And in our opinion, the best convexity we can find in the market are in gold and gold mining stocks. Many of these stocks are trading 70% to 90% off of their – what their worth, what their intrinsic value is. And the downside is limited. Many of these companies are trading below their liquidation prices even using current gold prices. So, the downside is limited. And when you're buying a company, a mining company that has a huge reserve and resources that will – that will allow them to mine for many decades, you're effectively buying a non-decaying option. So, time is on our side with that.

Now, if the gold price rises, suddenly, these stocks are going to be worth multiples. So, just like with the weather, we have to evaluate how likely it is that the gold price will rise. And fundamentals suggest that gold should rise materially from today's price. It's highly correlated to the monetary base. But as you can see from this chart,





(Page 18) there are times when the gold price gets out of sync from the monetary base. In the 1980s, the gold got ahead of itself and was ahead of the monetary base. However, today, the gold price has been lagging for quite a long time.

When investors hear they're upside of 300% to 1000%, naturally the question would be, why does this opportunity exist? Why is the market mispricing the gold optionality in these stocks? (Page 19) And from our standpoint, we believe it's – and we're very different from most investors in how we think about time. Most investors in the industry value gold stocks using a discounted cash flow (DCF) model, which has – if I have to wait a year before I get my cash, I want 7% more or 5% more. Another way to phrase this would be that next year's cash is 7% less. That's worth 7% less. So, this makes sense for fiat currencies. Because they have devalued over time.

However, does this make sense for gold? If I were to receive \$100 bill today, in 10 years, it's highly unlikely that that maintains its purchasing power. However, if I were to receive a gold ounce today, in 10 years, it's highly likely that it will have preserved its purchasing power. Gold has been proven to be a store of value for thousands and thousands of years. (Page 20) So, by using a discounted cash flow model, we're saying that gold mined today is worth roughly twice as much as gold mined 10 years from now. To us that doesn't make sense. We believe that DCF models are flawed when you're dealing with an underpriced good, and dealing with gold, which is shown to store its value.

So this is quite a difference in the value of a gold ounce that is mined. Who's correct? A DCF model has served investors well in an environment that's seen this inflation and has seen falling interest rates. But this cannot go for other – go on forever. And we like it when we're different from the crowd. This is how you – when logic is on our side, which we believe it is, this is how investors make money. And we should point out that we like optionality. However, with the gold stocks priced where they are, we're getting free optionality. Many of those companies, as I mentioned, are trading below their liquidation values, just leaving gold price where it is. So, we believe that with the rise in the gold price, many of these companies are worth much more.

And to show our theory play out in real life, I will pass it back over to Dave.

David Iben: All right. Thank you. And we apologize for all the math. It looks like we didn't lose anybody. But no more math (Page 21). But we figured it was important, we think, the distinction between how things might be valued and how they are valued right now. But the math is really the thing that matters most right now.

If you look when I started this business four decades ago, it couldn't have been more different than now. And what a great time to be buying bonds, and buying stocks, and using DCF models to do that. Because what we've seen since are four straight decades of falling interest rates, relative stability, relative disinflation. It's gone from one extreme, in terms of high real interest rates; to another extreme, to negative real interest rates.

So what's worked in the last 40 years? Arguably, this is the last thing you're going to want to own now. And we'll explore that a little bit. But bonds went from such a great deal, when they were yielding 15%, to now, as Jim Grant from Grant's Interest Rate Observer, calls them, they are return-free risks. We think that's right.

Options, on the other hand, especially when you could buy them on tangible assets that are non-decaying, seem to be the opposite. They could arguably be called perspective large returns without the risk, sort of the opposite. But we've discussed the logic of why optionality is important and why the DCF might not be as good as it once was. Let's look at empirical data. We'll look at some recent data. And we'll look at some history from the 60s and 70s.







So uranium producers (Page 22), we've been talking big about them for a number of years now. Patience finally paid off. It just didn't go up, it didn't go up, but finally it did. But if you own uranium over the last year-and-a-half, you've made roughly 60%. Not a bad return. If you own the producers that are selling uranium and benefiting from that 60% run, you did better. But these companies also hold optionality. They have a lot of uranium, they won't be producing for a number of years. So, they have optionality. And so, instead of making 60% holding uranium, you could have made 300% by owning the two large well-regarded uranium producers.

If somebody wanted more optionality (Page 23), so let's buy the guys that have a lot of uranium but aren't going to produce this year or next year, and probably not the year after. The optionality paid off. Instead of making 60%, or even the 300% of the majors, these things are up 600% to 800%. So, optionality paid off.

We'll spare you the slides from the natural gas companies, and the copper companies, and the oil companies, but it's the same thing. Anyone with these large reserves to be mined or produced in the future did much, much better. The optionality paid off.

Interesting to us, is that, while all these things were paying off, the price of gold has gone down for the last five quarters (page 24). That's a wonderful thing. So, you've had money supply going up, meaning, the theoretical value of gold has gone up. But gold hasn't really kept pace. So, somebody could own gold. They have this likelihood that gold goes way higher in the future. But if somebody wants real optionality, they can go for the smaller companies that own a lot of gold, that won't be pulled out of the ground this year, that will be five years from now or 10 years from now.

These are the ones that did really well 12 years ago, did really well in 2016, did well a year-and-a-half ago when things started to run, but now are priced very inexpensively. So, if you're looking for optionality, and you want something that's way mispriced, way undervalued, and is selling at a low point in the market right now, it seems like an interesting place to be.

That's our favorite. But lots of things, mostly anything out there, over time, should keep up with this money supply you see here. They say inflation anywhere always is a monetary phenomena.

Money supply is up 9 or 10-fold (Page 25). The NASDAQ is up 9 or 10-fold over the last decade or so. S&P is close. Prime real estate has done that sort of thing. Art has done that. And we've talked about in recent things, we won't go through it again, it migrates. So, look for optionality in the places that's likely to migrate to, commodities being an obvious.

In the 60s, they printed a lot of money (page 26). They called it guns and butter. Let's have the government pay for the military and pay for a lot of social programs. And 10 years later, the inflation kicked in and look at the price of the commodities index with a lag. Then I think we're pretty stable for quite a while. But the late-60s, you have the tech mania. The Fed printed a lot of money for every little crisis that came along. Massive amount of money. And you can see with the lags, five to 10 years later, big boom in commodities. Since then, things have pretty much settled down.

Now we've just printed \$4 trillion in the last year-and-a-half. The last year-and-a-half, we printed more money that had been printed previously through all of history. History and logic would suggest that the next five, 5 to 10 years could see quite a move in commodities.

Not that it's going to happen, but it's likely to happen. And once again, if we can buy these convex options, these things where we lose very little if we're wrong, and make a whole lot if we're right, commodities are an obvious place to look. (Page 27) We've talked a lot in recent calls about Richard Cantillon, and the idea that





money is not neutral. Sure, it migrates through the system but not evenly. It takes time and it goes into different things. And to what and when, clearly things that are scarce and valuable are better things to own than things that aren't. And as to when, we just showed you some charts on commodities in general, but really quickly here, we will take you through some history. The same history we were showing. But commodity by commodity.

In the 1970s (Page 28), in response to that 1960s money printing, gold went from \$35 an ounce to \$660 an ounce with a brief stop at \$800. Oil, this went from \$3 a barrel to \$36 a barrel. Fascinating though natural gas you can see kept paced (page 29). (Page 30) Food is the same thing. And beverages, cocoa and coffee, big move – food-oils, rather large move (page 31). Always with a delay but money printing has proven to make things go up. (Page 32) In terms of metal, this is back in the 70s with the price of copper and the price of uranium. This is what metals did. When you didn't have electronic vehicles, and you didn't have the ESG mandates, that's what copper and uranium did. We can only imagine how high they're going to go next time. So, we can give you a fundamental case on all these things. But let's just do it for one and save the time.

But uranium has had a nice move. It's gone from \$20 to \$50. But it was \$136 once. This chart shows it went to \$136. So, a lot of production came on. But we've seen in the last couple of years, when the price is bouncing between \$20 and \$50, a lot of production is shut down. And nobody has announced the building of a new mine. (Page 33) The fundamentals looked really compelling even if they never build another reactor. And you've probably watched the news. All of a sudden, everybody wants to build new reactors. So, the supply-demand for uranium is still very, very compelling. And then some of the stocks are still bargains.

It's the chart we show every time and it's in line with the optionality (Page 34). Things where – even if it takes a year, or 5 years, or 10 years for these optionality's to play, if things only doubled, and it takes 5 years, that's 15% a year. If it takes 10 years, that's over 7% per year. We will let others have the surety of 1% in their 10-year bond. We prefer the optionality and patience model.

Before I conclude in though, we are very excited about these value-laden, very high optionality prospects that aren't decaying. They should be well. But we still have roughly half the portfolio in more traditional value. (Page 35) The exact same sort of stocks that everybody else owns but not in the places where everybody else owns them. So, we love telecom services. People are going to continue to use them. But we can get way better bargains in Korea than we can in the U.S. People like a lot of good private equity sort of things, but Japanese equivalents, the trading companies are like merchant banks, Mitsui and Mitsubishi are two of the biggest - very strong companies with strong cash flow. Railroads in Hong Kong. Cheap, clean, carbon-free electricity, whether that's nuclear reactors in France, or hydroelectricity generated in Brazil, or in Russia, and so on.

So the fact that these are so rich in cash flow and strong positions means that despite a lot of the portfolio (Page 36) being invested in these latent cash flows that we won't see for a few years, despite that, the entire portfolios' traded at a low P/E (price-to-earnings) 12 times, low price to book one times, price to cash flow 5.5 times. And even the dividend yield is much higher than the market's dividend yield at 3.5%. Not so bad in this environment when you get the upside for free. So, we feel pretty good about that. And it's pretty equal in the Global and International portfolios (page 37).

The volatility, as we say, gives us chance to – as we pointed out over the last couple of years, be buying emerging markets in the first quarter of last year or so, and end of the first quarter, buying them back in the second quarter (Page 38-39). The same thing with gold. We are able to buy in March and sell in June. They ran up so much, then rolled out into energy, copper, and oil and gas, uranium. And then lately, as you can see out to the right, we've been selling some of the gas names and a lot of the uranium names because they've run up so much.





But underneath this market that's hitting today's another prime example, the indexes, they're up big. But last I looked, the advance decline was negative. More stocks are down today in the U.S. than are up. In Japan, most stocks were down. I think all 33 sectors were down.

So, underneath this, there's opportunity for active managers to pick and choose. And we've been able to buy one of the better banks in the world, a dominant bank in Kazakhstan. We've been able to buy electric power in emerging markets. We've been able to buy Hutchinson, which is a conglomerate that owns good phone companies and ports and retailers, you name it. We've been able even to buy healthcare companies in Japan.

So, that's the sort of opportunities we like. Volatility is part of life. And they can suppress it for a while. But when they lose control, that is when active management can most excel.

We start out talking about if there's ever a time to look different than the crowd, this is it (Page 40-41). You can see that the crowd owns most of their money in one country. Almost 60% of their portfolio is one country, a country that's only a fifth of the world's GDP. In the past, that's always been a mistake. A dozen years ago, everybody said you must own the BRICS, you must own the emerging markets, that's where the growth is there. They're right, that's where the growth is going to be. But they no longer like them. So, we have a lot of money in emerging markets. We have a lot of money in Canada where they have so many of the scarce resources the world needs. So, it looks very different.

And of course, a lot more in energy. We've been selling a lot in this big run-up. That energy is something, where a year ago, people were told they could not own at any price. That's usually a buy signal. Materials, I would say, we've been able to rotate from one type of material to another. But still, pretty undervalued.

And up to the right, just to reiterate, this portfolio, that is a value portfolio, still owns the biggest and best, (biggest solely now) is the largest lowest cost gas producer in the world. And we have strong phone companies. We have the two best, by far, uranium producers in the world. Some of the better gold companies in the world, two the three best hydroelectric franchises in the world, some great agriculture properties, and so on. So, we like the way the portfolio is positioned.

And as usually, I like to leave most of the time for questions-and-answers. Thank you.

Operator: Thank you. If you would like to ask a question, please signal by pressing "star" "1" on your telephone keypad. If you were using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment.

Again, press "star" "1" to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. Again, if you would like to ask a question, please press "star" "1" at this time.

Let's take our first question from Boris Palou.

Boris Palou: Hi. Thanks for taking my question. Can you hear me? Yes. Hi. I just have a question regarding your fund. It's really exposed to the natural gas prices, in a sense that you have a lot of companies that are in the natural gas theme. And if you have the high prices, it's really favored also uranium. And it did insert into high-yield fertilizers, so higher inflation. So, it's good for gold stocks. So, how do you value natural gas – your natural gas exposure? Do you have an incentive price the same way you value uranium or gold stocks?

David Iben: Yeah, that's a good question to talk about a lot of what we do. First of all, we take what the market gives us. So, the main reason to own so much uranium and natural gas and gold is the market, especially a year ago,





was giving it away. And historically, the first 20 years of my career, we really didn't own natural resources. They were overvalued.

Often on, over the last 20 years, there's been good times to own base metals, and then times to sell the base metals and own gold. When it comes to energy, we generally, over the last 15 years haven't owned that much. But in 2016, we had a chance to buy things very cheaply, and we did. They ran up and we sold. Then we didn't do much until about three years ago. Natural gas started becoming very cheap and we bought Range Petroleum. And then it became extremely cheap, so we bought as much Range as we could. And we bought Southwestern. And then on the oil side, we bought some of the higher-cost Canadian ones because they have the most optionality, as we've just discussed.

So, we bought the high optionality companies and some of the better companies we thought. And fortunately, that's worked up very well for us. But most of our energy has been uranium. And we felt that for a long time. And that shows the value of one of the slide shows – patience. And the other – the incentive price that you've asked about that we'll get to.

But this is a commodity that's been trading between \$20 and \$30, down from a \$136. We won't argue with some people that said it's worth \$60. We won't argue with people that say it's worth \$90. But \$20 and \$30 is wrong, just as \$136 is wrong. So, \$136 supply came out of the woodwork, Kazakhstan went up 10-fold. At the lower prices, all we've seen for the last half dozen years is mine after mine shutting. Nobody building. And you've seen other ways to take the material off the market. It's underpriced.

So we watch what people are doing. And we ask people what they're doing. And we ask what they think they're going to do. And we come up with an idea that \$75 is a pretty good price. But like I said, we won't argue with \$15 either way.

And then we try to buy these things to where we're going to make a lot of money if we're right, and won't lose money if it stays at \$30. Now it's moved so it's good. So, we tried to buy when we don't lose money based on low prices. We make a lot of money on incentive price, the equilibrium price.

And then I mentioned Richard Cantillon, the idea that inflation will migrate through the system. Maybe the doubling money supply means \$75 is going to prove to be too low. Alissa mentioned non-decaying options if we can buy these companies. So, they're undervalued. If we're wrong on prices going up. They're way undervalued if the prices go to \$75. And they have massive upside if, really, the new price is a \$100 something. And so that's how we do it. We want the free optionality, the non-decaying options. So, \$75 is sort of the equilibrium incentive price for uranium. By coincidence, we view oil as right around the same, or around \$75 unadjusted for inflation. Natural gas has been \$325 to \$350 unadjusted for inflation. And so, we like doing it that way.

Gold, we've been using \$2000, the sort of supply and demand price, unadjusted for inflation. There more than ever inflation adjusting probably makes sense. If we can buy gold companies that will make money, if the price stayed at \$1700, we'll make as good money when the price gets to \$2000-plus. And if it doesn't get there, you're going to see existing mines deplete not be replaced.

And then, if people are correct, when they point out to us, this isn't a commodity. You can't eat it. I mean, you can't put it in the gas tank. You don't burn it. You don't consume it. Yeah, it looks more like money.

We don't eat dollars. We don't put euros in the gas tank and what not. And so, maybe you should view gold as more of a supply-demand versus dollars. And yes, the money supply has gone from \$400 per ounce to \$22,000







per ounce. So, we're not suggesting that's going to happen. We're just suggesting, once again, there's a reason we're testing everybody's patience with optionality.

If we can buy these things to where they don't decay, we make money at \$1700, we make money at \$2000. And we make a lot of money if the real number is \$3000 or \$4000. And that's what we're looking for. So, \$2000 for gold, \$75 for uranium. You know, copper has been three-something. Natural gas in the mid-threes. Oil, \$75. And then adjusted for inflation, they're all higher than that.

Operator: Thank you. Once again, if you would like to ask a question, please press "star" "1".

We'll take our next question from Bruce James of James Reservoir Incorporated.

Bruce James: You know, what is your take on investing in copper? Because I noticed you invest in Turquoise Hill Resources, which I assume is kind of your long-term option. Now you don't sound to seem to really invest too much in active producing copper mines. Is that correct?

Alissa Corcoran: We have two main copper companies, Ivanhoe and Turquoise Hill. As you pointed out, copper has had a tremendous run. And as Dave mentioned, we like when the commodities are below its incentive price. Now copper is starting to reach that incentive price, especially adjusted after inflation.

However, the mining companies are still at a significant discount. And I think the biggest reason for that, is that, the copper companies that we own have huge resources. So, when you take time into consideration, any production after 10 years is really not counted in many of the models that analysts come up with.

In addition, there's a huge draw to developed markets and countries that are deemed less risky. Ivanhoe has one of the best copper mines in the world that they're developing in the DRC (Democratic Republic of the Congo) – a very risky place. Turquoise Hill is in Mongolia and there's a lot of disagreements between the Company and the country right now.

So those are, unfortunately, risks that you can't get away from but you can diversify. And so, if you look at our portfolio, we own a lot of different mining companies because we want to diversify across geographies, and assets, and management teams, and balance sheets, because there are so many things that can go wrong. And then in addition, we require a large margin of safety. So, the incentive price is our anchor. However, there are times when even the commodity price can be high. And still the mining companies are trading well below what we believe they should be worth.

David Iben: Yes. Diversification is good. It's back to that concept of optionality, if where we're wrong, we lose 30%, 40%, 50%. And where we're right, we make 500% or more. And that's been the case. It makes for an attractive portfolio.

Also, what people perceived as risky, and what turns out to be risky is interesting. I think if you ask anybody two years ago, which is safe, Chile or the DRC? Everybody would say, "Oh Chile. That's where you want to own copper mines." And that's been a big problem for people in Chile.

Meanwhile, the DRC and we both went out and spent time on the mine site, the country loved it. The people loved it. The local people are welcoming. And the country has done so much to also build schools there, and build gardens there, and give people jobs, and done a really good job. And that's been one of our better performing stocks, the one that seem riskiest to people.





The Turquoise Hill, the problem thus far doesn't even seem that much to be Mongolia as Rio Tinto, a good quality company. But they've had – they've had problems building the mine correctly. And that has caused costs to run up for Mongolia and so that needs to be sorted out. But all along, we've assumed that, one, there's massive value there. And two, we're going to get them haircuts and dilution as these problems work out. And both have been true. There's massive value even more so now that the price of copper has run up.

But there's issues that have been and still need to be worked out when it's all said and done. We expect dilution. And we expect tremendous upside from here to that diluted price.

Operator: Thank you. We'll take our next question from Larry Kline of FSC Securities.

Larry Kline: Yes. Thank you for the call today. With the inflation being discussed so much in the markets, why do you believe the price of gold has stayed low?

David Iben: History kind of suggests that when they print a bunch of money, they often use that money to buy bonds, and things like that. And that makes the bond market go up. And that makes the stock market go up, and the art market and real estate market. And when people are having fun making a lot of money in a mania, they have no use for gold. Gold is boring. Gold just sits there and hold its value. And who wants to hold their value when making money is really easy? But history also shows that eventually manias lose their zest. And the money goes looking for safety. That's usually when the price of gold goes up.

We showed at the other charts, money has been printed, and gold's had long periods of – that had been 1971 when we defaulted on the dollar, broke the supply to gold, and print all that money. The price of gold immediately shot up and then fell. It had a two-year period where it fell from \$300 to \$200. Yet, then five years later, it was \$800. You saw a little bit of that in 2008 when things broke down, gold fell 10%, then it skyrocketed.

You've got a year-and-a-half ago when they announced that they were going to go insane with the money, where gold instantly shot up because people were afraid of what they're calling risk assets, we're going into a depression. So, sell stocks, sell copper and then sell everything else. But now it's become clear, you can make a lot of money owning stocks in copper, uranium, and oil. Who the heck wants to own gold? So, we know nothing of the timing. We do know that gold tends to go up when everything else is faltering. So, they have doubled the money supply, the price of gold, it seems and surely will go up, 50% to 100% at some point. We just don't know when. Not going to try to predict when. But we like the math.

Operator: Once again, if you would like to ask a question, please press "star" "1".

We'll take our next question from Ed Tompkins of Bozeman Financial Advisors.

Ed Tompkins: Hello, Dave. And again, thanks for the call. We're just curious whether you're still carrying any short positions or put contracts on, I think, it was the S&P?

David Iben: Yes. And we don't short stocks, but we do look for mispriced securities. And so, about five years ago, for the only time in my 40-year career, the implied vol (volatility) got ridiculous on put options. And we thought that was a weird aberration at the time when the market was the most expensive ever. So we took advantage of that.

The bad news is, the market went from long-term bull market. It was way overvalued to the longest ever bull market that was obscenely overvalued. So, it was an unfortunate thing.





The good news is, we were right about two things. They were undervalued and cycles haven't disappeared. And so, in March of 2020 in several weeks' time, we made back three years for the losses and then some and so it turned out to be a reasonable strategy and actually especially helpful because we had cash to invest at the bottom. We didn't figure we would ever get a chance to get in there again, but about three months ago, things got really cheap again. So, we bought both 50-basis-point positions for a couple of months. Then the implied vol ran up and we stopped. This week, it went back down. And so, we have a 50-basis-point position. So, we're not going to predict when the market drops. But when we implied vol is too low, we will keep rolling this 50-basis-point position. We'll stop doing that when we make money, or when this last month becomes more expensive than we want to pay.

Operator: Thank you. Again, if you would like to ask a question, please press "star" "1".

We have no further questions in queue at this time. I'd like to turn the call back to Dave Iben. Please go ahead.

David Iben: All right. Well, thanks everybody for tuning in. We do view that this is a time where everybody needs to think about what worked before the 40 years' worth of falling interest rates. And what's worked when money supply was going crazy around the world. We're pretty excited that the things that worked best then are the things that are most affordable right now.

So, feeling good. We can check in again in three months and talk about how the fourth quarter went. But we appreciate everybody's partnership. And we'll talk to you soon. Thank you.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.

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